

# **EXHIBIT 10**

# GRACE W R GRACE & CO (GRA)

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## 10-K405

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R. GRACE & CO. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

## in value and shares

CURRENT ASSETS		
Cash and cash equivalents .....		
Notes and accounts receivable, net .....		
Inventories .....		
Deferred income taxes .....		
Asbestos-related insurance expected to be realized within one year .....		
Other current assets .....		
<b>TOTAL CURRENT ASSETS .....</b>		
Properties and equipment, net of accumulated depreciation and amortization of \$935.4 (1999 - \$908.3) .....	601.7	617
Goodwill, less accumulated amortization of \$7.2 (1999 - \$7.2) .....	34.1	25
Cash value of life insurance policies, net of policy loans .....	104.3	81
Deferred income taxes .....	388.4	328
Asbestos-related insurance expected to be realized after one year .....	288.2	296
Other assets .....	394.3	346
<b>TOTAL ASSETS:</b>	<b>2,584.9</b>	<b>\$ 2,475</b>

  

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt .....		
Accounts payable .....		
Income taxes payable .....		
Asbestos-related liability expected to be realized within one year .....		
Other current liabilities .....		
<b>TOTAL CURRENT LIABILITIES</b>		
Long-term debt .....		
Deferred income taxes .....		
Asbestos-related liability expected to be realized after one year .....		
Other liabilities .....		

  

COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' (DEFICIT) EQUITY		
Common stock issued, par value \$.01; 300,000,000 shares outstanding: 2000 - 65,410,000; 1999 - 69,414,000		
Paid in capital .....		
Accumulated deficit .....	(216.4)	
Deferred compensation trust .....	---	
Treasury stock, at cost: 11,443,900 common shares (1999 - 15,151,500)	(136.4)	
Accumulated other comprehensive loss .....	(151.5)	
<b>TOTAL SHAREHOLDERS' (DEFICIT) EQUITY</b>	<b>(71.3)</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY</b>	<b>\$ 2,584.9</b>	

The Notes to Consolidated Financial Statements  
are an integral part of these statements.

Grace is a defendant in property damage and bodily injury lawsuits relating to previously sold asbestos-containing products and expects that it will receive additional asbestos-related claims in the future. Grace was a defendant in 61,395 asbestos-related lawsuits at December 31, 2000 (7 involving claims for property damage, 8 involving attic insulation, and the remainder involving 124,907 claims for bodily injury), as compared to 50,342 lawsuits at December 31, 1999 (11 involving claims for property damage and the remainder involving 105,670 claims for bodily injury).

#### PROPERTY DAMAGE LITIGATION

The plaintiffs in property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Each property damage case is unique in that the age, type, size and use of the building, and the difficulty of asbestos abatement, if necessary, vary from structure to structure. Thus, the amounts involved in prior dispositions of property damage cases are not necessarily indicative of the amounts that may be required to dispose of cases in the future. Information regarding product identification, the amount of product in the building, the age, type, size and use of the building, the jurisdictional history of prior cases and the court in which the case is pending provide meaningful guidance as to the range of potential costs. Grace has recorded an accrual for all outstanding property damage cases for which sufficient information is available to form a reasonable estimate of such exposure.

Through December 31, 2000, out of 370 asbestos property damage cases filed, 140 were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in 9 cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in 7 cases for a total of \$50.3 million; 207 property damage cases were settled for a total of \$696.8 million; and 7 cases remain outstanding. No new cases have been filed since 1998.

#### PROPERTY DAMAGE CASE ACTIVITY

Cases outstanding, beginning	.....
New cases filed	.....
Settlements	.....
Dismissals	.....
Judgments	.....

Cases outstanding, end

#### ATTIC INSULATION LITIGATION

Through December 31, 2000, Grace was a defendant in eight class action lawsuits brought on behalf of owners of homes containing Zonolite attic fill insulation. These lawsuits seek damages and equitable relief, including the removal, replacement and/or disposal of all such insulation. This former attic insulation product has never previously been the subject of property damage litigation. Grace believes that this product was safe for its intended purpose.

#### BODILY INJURY LITIGATION

Bodily injury claims are generally similar to each other (differing primarily in the type of asbestos-related illness allegedly suffered by the plaintiff). However, Grace's estimated liability for such claims is influenced by numerous variables, including the solvency of other former asbestos producers, cross-claims by co-defendants, the rate at which new claims are filed, the jurisdiction in which the filings are made, and the defense and disposition costs associated with these claims. Grace's bodily injury liability reflects management's estimate of the number and ultimate cost of present and future bodily injury claims expected to be asserted against Grace given demographic assumptions of possible exposure to asbestos products manufactured by Grace.

Through December 31, 2000, approximately 16,200 asbestos bodily injury lawsuits involving approximately 35,500 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 53,400 lawsuits involving approximately 151,800 claims were disposed of (through settlement and judgments) for a total of \$561.8 million.

#### Bodily injury claim activity

BODILY INJURY CLAIM ACTIVITY	
Claims outstanding,	.....
beginning of year	.....
New claims	.....
Settlements	.....
Dismissals	.....

## ASBESTOS RELATED LIABILITY

Grace estimates its property damage and bodily injury liabilities based on its experience with, and recent trends in, asbestos litigation. Its recorded liabilities cover indemnity and defense costs for pending property damage cases and for pending and projected future bodily injury claims. As a result of the recent developments discussed in Note 1, Grace's evaluation of its recorded liability for asbestos-related litigation as of December 31, 2000 led to a fourth quarter adjustment of \$293.1 million (\$190.8 million net of tax) to account for an unexpected increase in the number of claims filed, new risk factors and recent cost experience. In the fourth quarter of 1998, a change in the accrual period for asbestos-related bodily injury litigation resulted in an adjustment of \$576.2 million (\$374.9 million after tax).

Grace previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. Grace adjusted its recorded insurance receivable in the fourth quarter of 2000 by \$85.1 million (\$55.6 million after tax) to reflect the additional amounts expected to be recovered in respect of the recorded asbestos-related liability. In 1998, the insurance receivable was adjusted by \$200.2 million (\$130.5 million after tax) for the same reason.

The net amount of the adjustments recorded during the fourth quarter of 2000 (\$208.0 million after insurance recovery) reflects adverse experience in the latter part of 2000 versus certain underlying assumptions used to estimate Grace's liability for asbestos-related litigation. The net amount of the 1998 adjustment was \$376.1 million pre-tax. After the 2000 adjustment, Grace's recorded liability for asbestos-related litigation is \$1,105.9 million gross and \$733.9 million net of insurance recovery.

ESTIMATED LIABILITY FOR ASBESTOS-RELATED LITIGATION (Dollars in millions)	2000	1999
Asbestos-related liability expected to be satisfied within one year.....	\$ 78.4	\$
Asbestos-related liability expected to be satisfied after one year.....	927.5	884.7
al asbestos-relate iabi ty	\$ 1,105.9	\$ 1,084.0

The current portion of Grace's asbestos-related liability is based on management's estimate as of the respective balance sheet date of indemnity payments and defense costs expected to be paid within one year. The amounts recorded at each balance sheet date reflect Grace's estimate as of the balance sheet date, based on measures governed by generally accepted accounting principles, of probable and estimable liabilities for asbestos-related litigation in all material respects. However, due to the Filing and the uncertainties of the asbestos-related litigation, actual amounts could differ materially from the recorded liability.

## ASBESTOS INSURANCE

Grace has settled with and been paid by its primary insurance carriers with respect to both property damage and bodily injury cases and claims. Grace has also settled with its excess insurance carriers that wrote policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. In addition, Grace has settled with many excess insurance carriers that wrote policies available for bodily injury claims in layers of insurance that Grace believes may be reached based on its current estimates. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985.

The asbestos-related insurance asset represents amounts expected to be received from carriers under settlement agreements for defense and disposition costs to

be paid by Grace. Estimated insurance reimbursements relate to property damage and bodily injury cases and claims pending at year-end 2000 and bodily injury claims expected to be filed in the future.

Activity in Grace's notes receivable from insurance carriers and asbestos-related insurance receivable during 2000 and 1999 was as follows

ESTIMATED INSURANCE RECOVERY ON ASBESTOS-RELATED LIABILITIES (Dollars in millions)		2000	1999
<b>NOTES RECEIVABLE</b>			
Notes receivable from insurance carriers, beginning of year, net of discount of \$0.8 (1999 - \$2.3)			8.0
Proceeds received under asbestos-related insurance settlements .....	3.2)	(14.2)	
Current year addition of discount	0.6	1.5	
Notes receivable from insurance carriers, end of year, net of discount of \$0.2 (1999 - \$0.8) .....	2.7	5.3	
<b>INSURANCE RECEIVABLE</b>			
Asbestos-related insurance receivable, beginning of year .....	366.1	425.0	
Proceeds received under asbestos-related insurance settlements .....	(82.4)	(58.9)	
Increase in asbestos-related insurance receivable	85.6	--	
Asbestos-related insurance receivable, end of year .....	369.3	366.1	
Total amounts due from insurance carriers.....	372.0	371.4	
Expected to be realized within one year .....	(83.8)	(75.2)	
Expected to be realized after one year .....	\$ 288.2	\$ 296.2	